

July 26, 2016

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Rating	Accumulate
Price	Rs270
Target Price	Rs270
Implied Upside	.0%
Sensex	27,977
Nifty	8,591

(Prices as on July 26, 2016)

Trading data

Market Cap. (Rs bn)	418.4
Shares o/s (m)	1,549.7
3M Avg. Daily value (Rs m)	623.5

Major shareholders

Promoters	50.34%
Foreign	27.43%
Domestic Inst.	12.57%
Public & Other	9.66%

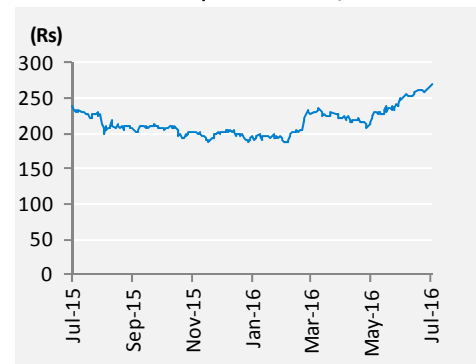
Stock Performance

(%)	1M	6M	12M
Absolute	8.7	37.0	12.3
Relative	2.7	22.7	12.8

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2016	8.0	8.0	-0.5
2017	10.0	10.5	-3.9

Price Performance (RIC: ABUJ.BO, BB: ACEM IN)



Source: Bloomberg

Ambuja Cement (ACEM) reported Q2CY16 earnings above our expectation on the back of lower than expected costs. While realisations were tad lower than expectations, they are likely to improve as prices continue to remain robust in its key markets. Strong outlook on Northern & Eastern regions and attractive quality of operations continue to drive our positive view on the stock. We maintain our **Accumulate** rating with TP of Rs270, EV/EBITDA of 15x CY17E.

■ **Lower costs drive the beat:** Realisations rose 3.7% YoY/Rs154/t (+7.2% QoQ/Rs290) at Rs4,344, below our expectation of Rs4,392/t. Volumes fell 1.7% YoY at 5.9m tonnes (t) in-line with our expectation of 5.8m t. Total cost/t fell 6.3% YoY/Rs224 to Rs3,350, beating our expectation of Rs3,485 primarily on account of lower than expected energy and freight costs. Led by lower costs, EBITDA/t rose 62%/Rs378 YoY to Rs994, ahead of our estimate of Rs906. Hence, EBITDA rose 59% YoY at Rs5.8bn (PLe: Rs5.3bn). PAT grew 77% YoY to Rs4.0bn (PLe: Rs3.5bn), aided by lower interest expense and higher other income.

■ **Prices in key markets remain strong, demand expected to improve Q4CY16 onwards:** Prices continue to remain strong in North and central markets with exit prices higher than quarter average. Prices are expected to remain firm in ACEM's key markets due to strong demand outlook and low capacity addition. While, demand had been lacklustre in Q2CY16 due to weak rural economy, severe heat wave and water shortages. It is likely to revive Q4CY16 onwards on the back of good monsoons, impact of 7th pay commission, govt's strong focus on infrastructure spending (manifested by robust ordering activity) and low cost housing. Robust prices along with improving demand are likely to support ACEM earnings going forward. We expect 2-year CAGR at 34% in EPS for CY15-CY17, driven by strong margin expansion.

Key financials (Y/e December)

	2014	2015	2016E	2017E
Revenues (Rs m)	99,107	93,683	97,827	110,201
Growth (%)	9.2	(5.5)	4.4	12.6
EBITDA (Rs m)	18,610	14,384	18,602	22,870
PAT (Rs m)	13,207	8,631	12,408	15,588
EPS (Rs)	8.5	5.6	8.0	10.0
Growth (%)	27.0	(34.7)	43.7	25.6
Net DPS (Rs)	5.0	2.8	5.0	4.9

Profitability & Valuation

	2014	2015	2016E	2017E
EBITDA margin (%)	18.8	15.4	19.0	20.8
RoE (%)	13.5	8.5	11.8	14.2
RoCE (%)	13.9	9.0	12.2	14.6
EV / sales (x)	3.8	3.9	3.7	3.3
EV / EBITDA (x)	20.1	25.7	19.6	15.8
PE (x)	31.7	48.5	33.8	26.9
P / BV (x)	4.1	4.1	3.9	3.7
Net dividend yield (%)	1.9	1.0	1.8	1.8

Source: Company Data; PL Research

Exhibit 1: Q2CY16 Result Overview (Rs m)

Y/e Dec	Q2CY16	Q2CY15	YoY gr. (%)	Q1CY16	H1CY16E	H1CY15	YoY gr. (%)
Net Sales	25,412	24,928	1.9	24,183	49,595	49,173	0.9
Raw Material	2,035	1,782	14.1	1,539	3,574	3,906	(8.5)
<i>% of Net Sales</i>	<i>8.0</i>	<i>7.2</i>		<i>6.4</i>	<i>7.2</i>	<i>7.9</i>	
Staff Costs	1,535	1,501	2.2	1,497	3,031	2,982	1.7
<i>% of Net Sales</i>	<i>6.0</i>	<i>6.0</i>		<i>6.2</i>	<i>6.1</i>	<i>6.1</i>	
Power & Fuel	4,675	5,843	(20.0)	5,118	9,793	11,211	(12.6)
<i>% of Net Sales</i>	<i>18.4</i>	<i>23.4</i>		<i>21.2</i>	<i>19.7</i>	<i>22.8</i>	
Freight	6,605	7,151	(7.6)	6,967	13,572	13,358	1.6
<i>% of Net Sales</i>	<i>26.0</i>	<i>28.7</i>		<i>28.8</i>	<i>27.4</i>	<i>27.2</i>	
Other Expenses	4,749	4,989	(4.8)	4,827	9,576	9,341	2.5
<i>% of Net Sales</i>	<i>18.7</i>	<i>20.0</i>		<i>20.0</i>	<i>19.3</i>	<i>19.0</i>	
Total Expenditure	19,598	21,267	(7.8)	19,948	39,547	40,798	(3.1)
EBITDA	5,813	3,661	58.8	4,235	10,048	8,375	20.0
<i>Margin (%)</i>	<i>22.9</i>	<i>14.7</i>		<i>17.5</i>	<i>20.3</i>	<i>17.0</i>	
Depreciation	1,511	1,485	1.7	1,477	2,988	3,063	(2.5)
Other income	1,368	1,234	10.8	1,415	2,783	2,570	8.3
EBIT	5,670	3,410	66.3	4,173	9,843	7,883	24.9
Interest	205	316	(34.9)	182	387	529	(26.9)
PBT	5,465	3,094	76.6	3,992	9,456	7,353	28.6
Extraordinary income/(expense)	-	-		210	210	-	
PBT (After EO)	5,465	3,094	76.6	4,202	9,667	7,353	31.5
Tax	1,470	831	77.0	1,164	2,634	1,913	37.7
<i>% PBT</i>	<i>26.9</i>	<i>26.8</i>		<i>27.7</i>	<i>27.2</i>	<i>26.0</i>	
Reported PAT	3,995	2,264	76.5	3,038	7,033	5,440	29.3
Adjusted PAT	3,995	2,264	76.5	2,885	6,881	5,440	26.5

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e Dec	Q2CY16	Q2CY15	YoY gr. (%)	Q1CY16	H1CY16E	H1CY15	YoY gr. (%)
Volume (m te)	5.9	6.0	(1.7)	6.0	11.8	11.4	3.8
Net Realisations (Rs/te)	4,344	4,190	3.7	4,053	4,197	4,321	(2.9)
EBITDA/ te (Rs/te)	994	615	61.5	710	850	736	15.5

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e December	2014	2015	2016E	2017E
Net Revenue	99,107	93,683	97,827	110,201
Raw Material Expenses	8,508	8,267	8,352	9,126
Gross Profit	90,599	85,416	89,475	101,075
Employee Cost	5,816	5,895	6,190	6,685
Other Expenses	66,173	65,137	64,683	71,519
EBITDA	18,610	14,384	18,602	22,870
Depr. & Amortization	5,095	6,257	6,038	6,329
Net Interest	645	918	685	771
Other Income	4,964	4,513	5,117	5,583
Profit before Tax	17,834	11,722	16,997	21,353
Total Tax	2,871	3,647	4,589	5,765
Profit after Tax	14,964	8,076	12,408	15,588
Ex-Od items / Min. Int.	(1,757)	556	—	—
Adj. PAT	13,207	8,631	12,408	15,588
Avg. Shares O/S (m)	1,549.8	1,551.9	1,551.9	1,551.9
EPS (Rs.)	8.5	5.6	8.0	10.0

Cash Flow Abstract (Rs m)

Y/e December	2014	2015	2016E	2017E
C/F from Operations	16,753	15,528	11,854	21,493
C/F from Investing	(4,633)	(874)	(316)	(9,570)
C/F from Financing	(7,171)	(8,969)	(5,935)	(9,830)
Inc. / Dec. in Cash	4,948	5,685	5,603	2,094
Opening Cash	39,606	44,587	50,317	55,920
Closing Cash	44,587	50,317	55,920	58,013
FCFF	13,636	8,904	10,023	21,266
FCFE	13,523	8,940	9,922	21,260

Key Financial Metrics

Y/e December	2014	2015	2016E	2017E
Growth				
Revenue (%)	9.2	(5.5)	4.4	12.6
EBITDA (%)	18.4	(22.7)	29.3	22.9
PAT (%)	27.3	(34.6)	43.7	25.6
EPS (%)	27.0	(34.7)	43.7	25.6
Profitability				
EBITDA Margin (%)	18.8	15.4	19.0	20.8
PAT Margin (%)	13.3	9.2	12.7	14.1
RoCE (%)	13.9	9.0	12.2	14.6
RoE (%)	13.5	8.5	11.8	14.2
Balance Sheet				
Net Debt : Equity	(0.4)	(0.5)	(0.5)	(0.5)
Net Wrkng Cap. (days)	(452)	(535)	(388)	(489)
Valuation				
PER (x)	31.7	48.5	33.8	26.9
P / B (x)	4.1	4.1	3.9	3.7
EV / EBITDA (x)	20.1	25.7	19.6	15.8
EV / Sales (x)	3.8	3.9	3.7	3.3
Earnings Quality				
Eff. Tax Rate	16.1	31.1	27.0	27.0
Other Inc / PBT	27.8	38.5	30.1	26.1
Eff. Depr. Rate (%)	4.5	5.2	4.7	4.7
FCFE / PAT	102.4	103.6	80.0	136.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e December	2014	2015	2016E	2017E
Shareholder's Funds	101,033	103,069	106,387	113,001
Total Debt	292	327	227	221
Other Liabilities	5,983	5,709	5,539	5,325
Total Liabilities	107,307	109,105	112,152	118,547
Net Fixed Assets	71,572	68,785	67,057	74,709
Goodwill	—	—	—	—
Investments	1,057	1,069	1,069	1,069
Net Current Assets	34,678	39,251	44,026	42,770
<i>Cash & Equivalents</i>	<i>45,251</i>	<i>49,676</i>	<i>55,279</i>	<i>57,373</i>
<i>Other Current Assets</i>	<i>21,128</i>	<i>22,089</i>	<i>22,747</i>	<i>23,950</i>
<i>Current Liabilities</i>	<i>31,701</i>	<i>32,514</i>	<i>34,000</i>	<i>38,553</i>
Other Assets	—	—	—	—
Total Assets	107,307	109,105	112,152	118,547

Quarterly Financials (Rs m)

Y/e December	Q3CY15	Q4CY15	Q1CY16	Q2CY16
Net Revenue	20,952	23,558	24,183	25,412
EBITDA	2,944	3,042	4,235	5,813
<i>% of revenue</i>	<i>14.1</i>	<i>12.9</i>	<i>17.5</i>	<i>22.9</i>
Depr. & Amortization	1,553	1,641	1,477	1,511
Net Interest	(691)	(886)	(1,234)	(1,162)
Other Income	898	1,067	1,415	1,368
Profit before Tax	2,082	2,287	3,992	5,465
Total Tax	547	1,187	1,164	1,470
Profit after Tax	1,536	1,100	3,038	3,995
Adj. PAT	1,536	1,657	2,827	3,995

Key Operating Metrics

Y/e December	2014	2015	2016E	2017E
Volume (mn te)	22	22	22	24
Net Realisations (Rs/te)	4,474	4,303	4,368	4,586
EBITDA/ te (Rs/te)	840	661	831	952
RM cost (Rs/ te)	360	366	373	380
Power, Oil & Fuel (Rs/ te)	1,028	943	844	902
Freight Charges (Rs/ te)	1,101	1,153	1,154	1,186

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage	PL's Recommendation Nomenclature																																		
<table border="1"> <caption>Rating Distribution of Research Coverage</caption> <thead> <tr> <th>Rating</th> <th>% of Total Coverage</th> </tr> </thead> <tbody> <tr> <td>BUY</td> <td>36.5%</td> </tr> <tr> <td>Accumulate</td> <td>48.7%</td> </tr> <tr> <td>Reduce</td> <td>14.8%</td> </tr> <tr> <td>Sell</td> <td>0.0%</td> </tr> </tbody> </table>	Rating	% of Total Coverage	BUY	36.5%	Accumulate	48.7%	Reduce	14.8%	Sell	0.0%	<table border="0"> <tr> <td>BUY</td> <td>:</td> <td>Over 15% Outperformance to Sensex over 12-months</td> </tr> <tr> <td>Accumulate</td> <td>:</td> <td>Outperformance to Sensex over 12-months</td> </tr> <tr> <td>Reduce</td> <td>:</td> <td>Underperformance to Sensex over 12-months</td> </tr> <tr> <td>Sell</td> <td>:</td> <td>Over 15% underperformance to Sensex over 12-months</td> </tr> <tr> <td>Trading Buy</td> <td>:</td> <td>Over 10% absolute upside in 1-month</td> </tr> <tr> <td>Trading Sell</td> <td>:</td> <td>Over 10% absolute decline in 1-month</td> </tr> <tr> <td>Not Rated (NR)</td> <td>:</td> <td>No specific call on the stock</td> </tr> <tr> <td>Under Review (UR)</td> <td>:</td> <td>Rating likely to change shortly</td> </tr> </table>	BUY	:	Over 15% Outperformance to Sensex over 12-months	Accumulate	:	Outperformance to Sensex over 12-months	Reduce	:	Underperformance to Sensex over 12-months	Sell	:	Over 15% underperformance to Sensex over 12-months	Trading Buy	:	Over 10% absolute upside in 1-month	Trading Sell	:	Over 10% absolute decline in 1-month	Not Rated (NR)	:	No specific call on the stock	Under Review (UR)	:	Rating likely to change shortly
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